

7-1975

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Meyer Drucker

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Recommended Citation

Drucker, Meyer (1975) "Importance of Not-For-Profit Accounting in the Curriculum," *Woman C.P.A.*: Vol. 37 : Iss. 3 , Article 2.

Available at: <https://egrove.olemiss.edu/wcpa/vol37/iss3/2>

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The Importance of Not-For-Profit Accounting in the Curriculum

Meyer Drucker, CPA
Charlotte, North Carolina

The author reports on the results of a survey he conducted of courses in not-for-profit accounting offered in colleges and universities and makes a plea for more such courses in the accounting curriculum.



Meyer Drucker is Associate Professor of Accounting at the University of North Carolina at Charlotte. He previously taught at the University of South Carolina and served as Chairman of the Accounting Department at Midlands Technical College. Prior to his teaching career he worked in industry and for the U.S. General Accounting Office.

Mr. Drucker holds a B.S. in Accounting and a J.D. from the University of South Carolina and an M.A. in Public Administration from American University. He is a licensed CPA in Virginia and North Carolina.

Mr. Drucker's research interests are in the public sector of the accounting profession and have resulted in articles published in Governmental Finance and The Internal Auditor. He serves on the International Government and Public Affairs Committee of the Institute of Internal Auditors.

Governments of all types and other not-for-profit (NFP) institutions, such as hospitals, schools and universities, are having serious funding problems. At present, the public's attitude toward many of these activities may be at an all-time low. These groups often lack the ability to properly explain to their constituencies the effectiveness of their programs. Oftentimes their goals are really unclear to themselves or their constituencies and their accomplishments leave much to be desired. In the past, funds were requested and, generally, were given as long as there was someone to receive and spend the money. Now the emphasis is shifting toward accountability and program accomplishments.

While accountability of NFP organizations is similar to profit-seeking enterprises, important differences do exist. NFP organizations are generally not concerned about increasing or having capital balances. Their primary objective is to expend resources for rigidly prescribed

purposes or within the limits of prescribed budgeted amounts. Statutory and budgetary controls should exist even though there is no need for making a profit. The major consideration is therefore with compliance. If the legislative authority is foresighted, meaningful goals can be set and essential controls can be required for monitoring progress toward these goals.

The primary emphasis of most accountants' education and experience has oriented them to think in terms of profit as a measure of operating efficiency. However, NFP institutions have an added dimension: the need to justify their existence on the basis of efficiency of operations as well as upon the needs of the society they are intended to serve. Any meaningful measurements of progress towards such goals can come about only through good accounting and budgeting practices plus effective internal and external audit reviews.

Little research has been done on uni-

versity offerings in NFP accounting courses. In the April 1967 issue of *The Accounting Review* (pp. 366-69), Neeley and Robason reported on their findings of governmental course offerings in an article entitled, "Governmental Accounting: A Critical Evaluation". Their study was limited to member schools of the then American Association of Collegiate Schools of Business (AACSB). The purposes of that study and the survey which follows were similar, i.e.:

- (1) to determine the current status of the NFP course in the accounting curriculum and
- (2) to ascertain opinions held by accounting professors on the value of a course in NFP accounting.

Current Practices

This report is based on a questionnaire sent to accounting departmental chairpersons in March 1974 for both AACSB and the larger non-member AACSB schools. The inclusion of the non-

member schools was deemed essential because these schools produce such a large number of accounting graduates. Another reason was to determine whether there is a significant difference in emphasis between the two types of schools.

Students from the responding schools represent a substantial number of the accounting graduates in the United States during the past year. See Table I for the response to the 1974 questionnaire.

In the 1967 report, 66% of the responding schools indicated an offering in governmental accounting. NFP accounting offerings for AACSB schools are now only 44% (Table II).

The NFP course is generally considered an undergraduate course, but many schools allow graduate credit (Table III). In a few instances only graduate credit is given.

Most schools offer the course once a year, but many of the AACSB schools offer it twice a year (Table IV).

Many students get some exposure to governmental accounting in other courses, but the time devoted is usually two weeks or less (Table V).

According to the respondents, only 23% of the accounting graduates in the schools surveyed took a complete course in NFP accounting (Table VI).

Nature of Course

Outside forces are having an effect on the nature of the NFP course. It is encouraging that the AICPA has indicated a greater interest in the NFP sector by developing audit guides for state and local governments, colleges and universities, hospitals and voluntary health and welfare organizations. Several AAA committees have been concerned with the NFP sector. GAO has been the leader in widening the scope of governmental auditing from financial operations to determining whether programs are achieving the purposes for which funds are made available and whether the funds are spent economically and efficiently.

Governmental Accounting by Hay and Mikesell is by far the most popular text with 64 schools using it. A number of schools did indicate they would switch to a new book, *Fund Accounting*, by Lynn and Freeman. Both of these texts cover topics other than municipal accounting. By perusing some earlier texts in the area of governmental accounting, it quickly becomes obvious that in past years the course was a municipal accounting procedures course. The percentage of time devoted to the various topics is summarized in Table VII. One of the criti-

Table I
RESPONSE TO QUESTIONNAIRE

	Questionnaires Sent	Responses Received	Percentage Received
AACSB Schools	162	95	59%
Non-AACSB Schools	104	83	80%
Totals	266	178	67%

Table II
OFFERINGS IN NOT-FOR-PROFIT ACCOUNTING

	Responses	NFP Course Offered	Percentage Offering
AACSB Schools	95	42	44%
Non-AACSB Schools	83	47	57%
Totals	178	89	50%

Table III
LEVEL CREDIT ALLOWED — 1974
FOR NFP COURSES

	Graduate	Undergraduate
AACSB Schools	15	38
Non-AACSB Schools	13	43

Table IV
NFP COURSES — 1974
FREQUENCY OFFERED

	Once A Year	Twice A Year	Other
AACSB Schools	23	14	4
Non-AACSB Schools	27	6	5

Table V
TIME DEVOTED TO GOVERNMENTAL ACCOUNTING
AS PART OF ANOTHER COURSE

	AACSB Schools	Non-AACSB Schools
Less than one week	30	21
One - two weeks	26	25
Three - four weeks	9	5
More than four weeks	2	1

Table VI
STUDENTS TAKING A COMPLETE COURSE
IN NOT-FOR-PROFIT ACCOUNTING

	Number of Graduates	Separate Course Taken	Percentage Graduates
AACSB Schools	10,818	2,111	20%
Non-AACSB Schools	4,871	1,438	30%
Totals	<u>15,689</u>	<u>3,549</u>	<u>23%</u>

Table VII
1974 NFP
COURSE CONTENT

	AACSB Schools	Non-AACSB Schools
Municipal	52%	60%
Federal	18	10
State	9	12
Hospital	8	6
University	6	6
Other	7	6

Table VIII
DOES ACCOUNTING DEPARTMENT CONSIDER
GOVERNMENTAL ACCOUNTING IMPORTANT FOR
BACKGROUND PREPARATION FOR PUBLIC
ACCOUNTING?

	AACSB Schools	Non-AACSB Schools	Total
Yes	52	55	107
No	33	21	54
No Response	<u>10</u>	<u>7</u>	<u>17</u>
Totals	<u>95</u>	<u>83</u>	<u>178</u>

cisms in the 1967 report was that little effort was devoted to Federal Government problems. Apparently this has been alleviated in the courses now offered in most schools.

Chairperson's Views of Not-For-Profit Course Content

One-third of the responding accounting departmental chairpersons do not seem to consider the NFP accounting course important for background preparation for public accounting (Table VIII). This seems to ignore the fact that most major CPA firms have some, if not many, hospitals, colleges and governmental units as

clients. This response is also puzzling in view of the growth of the NFP sector and its resultant need of accountants, many being recruited from public accounting.

An attempt was made to determine if chairpersons thought students should consider NFP accounting as a potential job opportunity. Over 1 out of 5 of the chairpersons (28 of 132 responding) do not think students should.

Internal Auditing

Internal auditing is a rapidly growing specialization both in government and the private sector. Operational auditing, as opposed to financial auditing, is much

further developed in government, especially at the federal level, than in the private sector. In fact, this is the reason this section was included in the questionnaire. However, only 12 schools offer a separate course in internal auditing with seven other schools planning to do so in the next year.

Many of the techniques covered in the regular (independent) auditing course would also apply to internal auditing, especially for financial auditing. The survey also indicated that about 9% of the auditing course is specifically devoted to internal auditing matters.

Conclusion

Many college accounting departments do not have chairpersons or professors familiar with NFP accounting problems and hence have no one to stimulate the interest of students in this area. With a little enthusiasm from the faculty this interest could easily be kindled. The survival of our public institutions is essential. This can be assured only if our governments health and welfare agencies and educational, religious, and charitable institutions operate efficiently and effectively. The accounting teaching profession has responded to the needs of the private sector; surely more of its efforts could be devoted to NFP activities.

In the past, the course has stressed municipal accounting procedures and meeting statutory requirements for recording income and expenses. A positive sign has been the movement towards including other non-profit organizations in the course. However, more emphasis needs to be placed on setting institutional objectives through budgeting, the theory of accountability for these organizations, the importance of using cost accounting in such institutions, and the utilization of performance auditing.

The accounting profession has always indicated a commitment to public service. There is no better time than now, when public institutions are under attack, for the profession to show its commitment to the accountability of its public institutions. There would be no better way than to encourage the development of a meaningful course in not-for-profit accounting in every accounting program. The NFP institutions would benefit as there would be a greater understanding of its problems. The public accounting profession would also profit because its newly employed graduates would be more effective in working with NFP clients.